Michigan Department of Treasury 496 (02/06) Auditing Procedure

			'rocedu 2 of 1968, as		POIT nd P.A. 71 of 1919	, as amended	i.				
Loca	al Unit	of Go	vernment Type	9			Local Unit Name		· · · · · · · · · · · · · · · · · · ·	County	
	Coun		⊠City	Twp	□Village	Other	City of Swar	tz Creek		Genesee	
	al Yea		200		Opinion Date	0000		Date Audit Report Subn			
	ne 3				August 21	, 2006		December 12, 2	006	·	
We affirm that:											
We a	ere ce	ertifie	d public ac	countants	s licensed to p	ractice in f	Michigan.				
					erial, "no" resp ments and rec			ed in the financial stat	ements, includ	ling the notes, or in the	
	YES	9	Check ea	ch applic	able box bel	ow. (See ii	nstructions for f	urther detail.)			
1.	×		•	•		-	s of the local ur ents as necess		financial stater	ments and/or disclosed in the	
2.		\boxtimes						it's unreserved fund budget for expenditures		tricted net assets	
3.	X		The local	unit is in o	compliance wi	th the Unif	orm Chart of Ac	counts issued by the	Department of	Treasury.	
4.	×		The local	unit has a	dopted a bud	get for all r	equired funds.				
5.	X		A public h	earing on	the budget w	as held in	accordance witl	State statute.			
6.	×		The local	unit has n	ot violated the	e Municipa		n order issued under	the Emergency	y Municipal Loan Act, or	
7.	$\overline{\times}$		•		•			venues that were colle	ected for anoth	er taxing unit.	
8.	X						=	with statutory requirer			
9.	X		The local	unit has n	io illegal or un	authorized	expenditures t	nat came to our attent d (see Appendix H of	tion as defined	in the Bulletin for	
10.	\boxtimes		There are that have	no indica	tions of defaid	cation, frau mmunicate	id or embezzlen id to the Local A	nent, which came to o	ur attention du	ring the course of our audit f there is such activity that has	
11.	\boxtimes						from previous		*** ** *	to the control of the	
12.	X				UNQUALIFI						
13.	X				complied with		or GASB 34 as	modified by MCGAA S	Statement #7 a	and other generally	
14.	X	П				-	orior to paymen	t as required by charte	er or statute.		
15.		П						•			
15. To our knowledge, bank reconciliations that were reviewed were performed timely. If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is r included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and description(s) of the authority and/or commission. I, the undersigned, certify that this statement is complete and accurate in all respects.								e audited entity and is not me(s), address(es), and a			
We	have	e end	losed the	following	3 .	Enclosed	d Not Required	(enter a brief justificatio	n)	· · · · · · · · · · · · · · · · · · ·	
Fina	ancia	l Sta	tements								
The	lette	er of	Comments	and Reco	mmendations						
Oth	er (D	escrib	e)								
			ccountant (Fi	rm Name)			1	Gelephone Number (989) 799-9580			
	et Add		ot/Rd	1 1	11		j	ity Saginaw	State Zip MI 48603		
Auth	oriziñ(CBA	Signature /	Mu	1/11.	i	rinted Name Gerald J. Desl	-	License Nu 110100		



Financial Statements

For The Fiscal Year Ended June 30, 2006



5800 Gratiot Saginaw, MI 48638 989.799.9580 www.rehmann.com

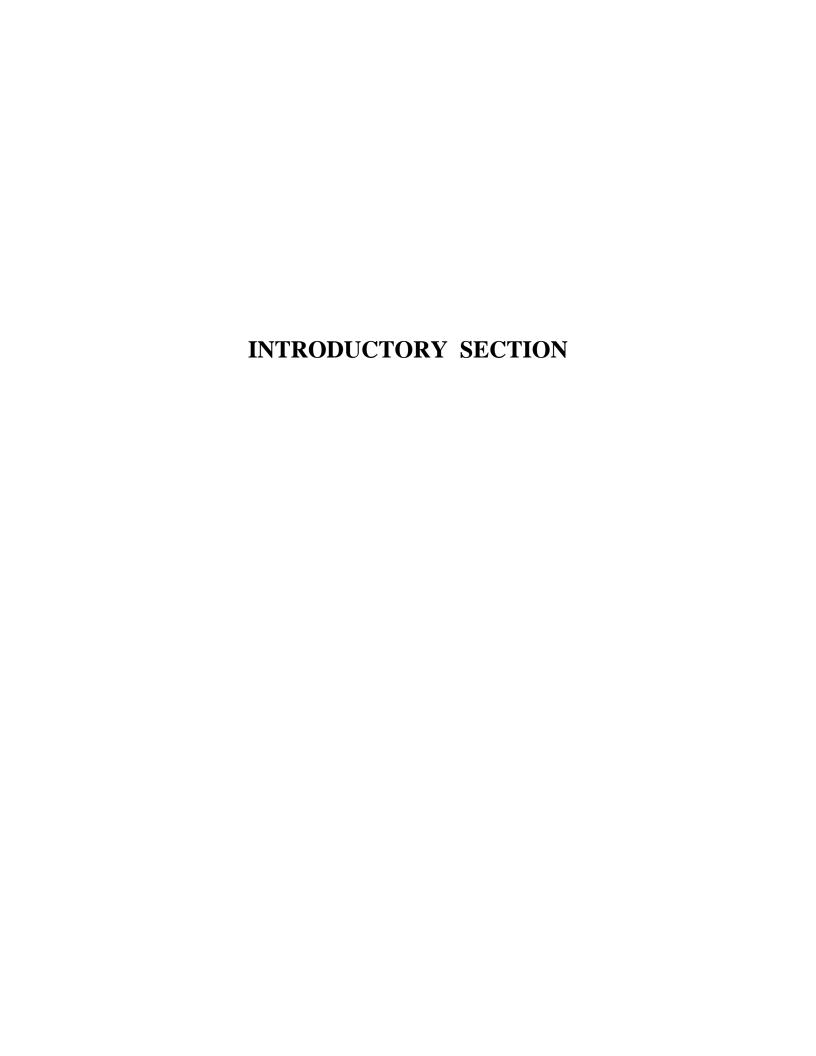
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LIST OF ELECTED AND APPOINTED OFFICIALS

City Council

Richard Abrams Mayor

Jason ChristieMayor Pro-TemDonald AdamsCouncilpersonC. David HurtCouncilpersonDavid PlumbCouncilpersonCurtis PorathCouncilpersonMichael ShumakerCouncilperson

Other Officers and Officials

Paul Bueche City Manager

Mary Jo Clark

Tom Svrcek

City Clerk/Finance Director

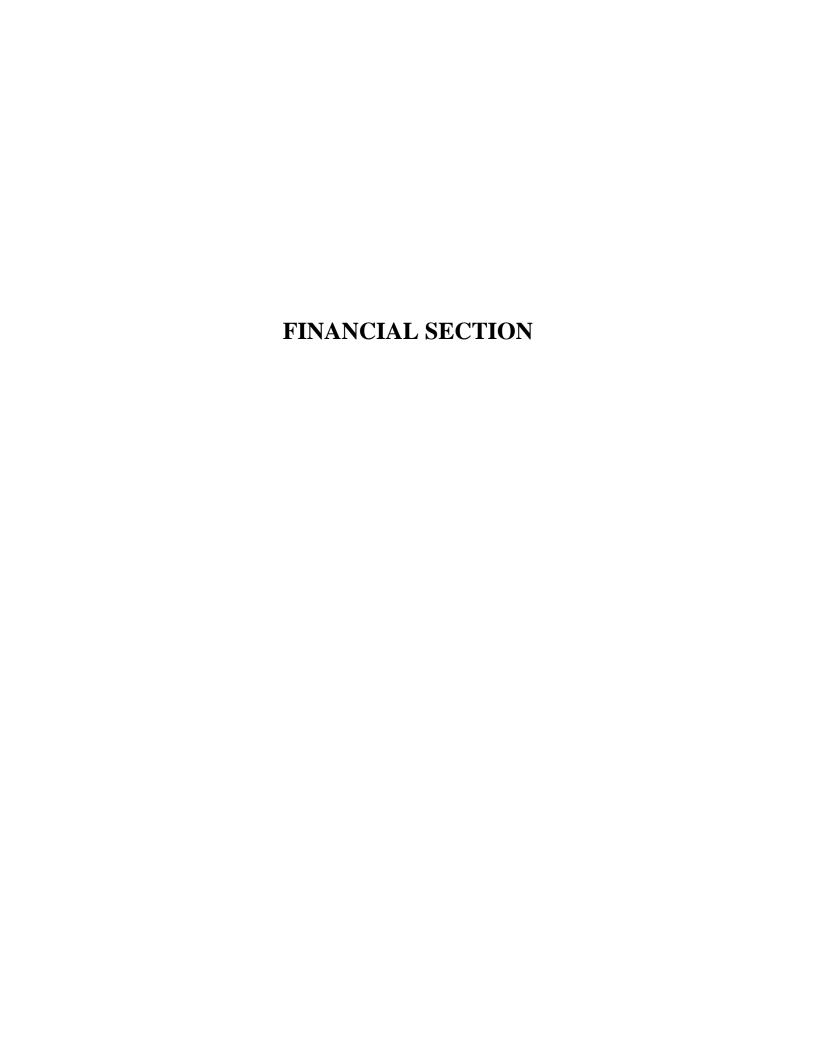
Director of Public Services

Rick Clolinger Police Chief

Tom O'Brien Zoning Administrator

Deanna Korth Deputy Treasurer/Deputy City Clerk

Juanita Aguilar Treasurer



An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

August 21, 2006

Honorable Mayor and Members of the City Council City of Swartz Creek Swart Creek, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *City of Swartz Creek*, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Swartz Creek Area Senior Citizen's, Inc., which represent 87 percent, 106 percent and 99 percent, respectively, of the assets, net assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Swartz Creek Area Senior Citizen's, Inc., is based on the reports of other auditors.

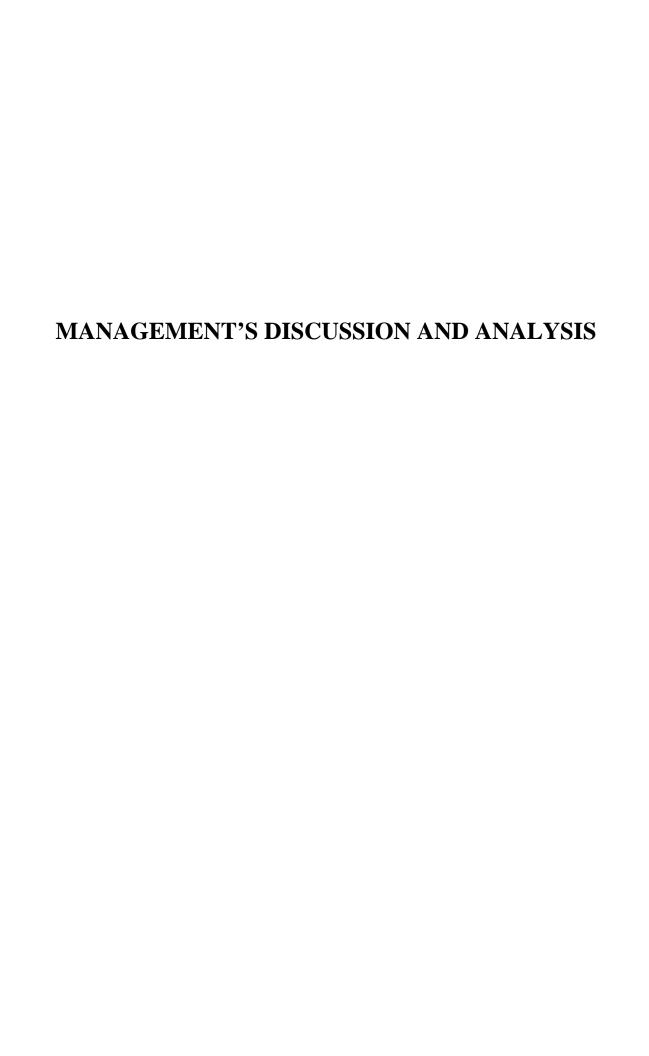
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of *City of Swartz Creek*, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General, Major Street, Local Street and Garbage Collection Governmental Funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents on pages 4-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *City of Swartz Creek's* basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Rehmann Lohan



City of Swartz Creek Management's Discussion and Analysis

Our discussion and analysis of the City of Swartz Creek's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- State-shared revenue, our second largest revenue source, was reduced again by the State of Michigan by approximately \$3,600 this year. The City expected this and reduced budgeted appropriations and watched actual revenues and expenses closely, which should have resulted in a fund balance increase of \$20,030 in General Fund. An opportunity arose where the City would be gifted with ten acres of land if the City purchased the adjoining ten acres for park use. City Council approved the purchase at a cost of \$101,800 which resulted in the City using \$81,770 of existing Fund Balance.
- Total net assets related to the City's governmental activities increased by approximately \$313 thousand. However, the unrestricted portion of net assets increased by approximately \$24 thousand.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Swartz Creek as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City of Swartz Creek's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City of Swartz Creek as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Summary Condensed Statement of Net Assets

	Governmenta	al Activities	Business-typ	e Activities	Total			
	2006	2005	2006	2005	2006	2005		
Current assets Noncurrent assets:	\$3,675,800	\$3,422,892	\$3,535,998	\$3,062,214	\$7,211,798	\$6,485,106		
Restricted assets Capital assets	3,897,004	- <u>3,939,155</u>	4,456,517	4,704,534	8,353,521	<u>8,643,689</u>		
Total assets	7,572,804	7,362,047	7,992,515	7,766,748	15,565,319	15,128,795		
Current liabilities Long-term liabilities	134,408 994,357	176,345 <u>974,919</u>	172,462 <u>0</u>	166,865 <u>83,580</u>	306,870 994,357	343,210 1,058,499		
Total liabilities	1,128,765	1,151,264	172,462	250,445	1,301,227	1,401,709		
Net assets: Invested in capital assets -								
Net of related debt	2,971,841	3,044,155	4,456,517	4,620,954	7,428,358	7,665,109		
Restricted	2,063,507	1,782,414	0	0	2,063,507	1,782,414		
Unrestricted	1,408,691	1,384,217	3,363,536	2,895,349	4,772,227	4,279,566		
Total net assets	\$6,444,039	\$6,210,786	\$7,820,053	\$7,516,303	\$14,264,092	\$13,727,089		

The City of Swartz Creek's combined net assets increased 3.9 percent from a year ago increasing from \$13.7 million to \$14.2 million. In contrast, last year's net assets increased by only 2.3 percent. As we look at the governmental activities separately from the business-type activities, we can see that governmental net assets increased by 3.76% while business-type net assets increased by 4.04%.

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) increased by \$24 thousand for the governmental activities. This represents an increase of approximately 1.8 percent. The current level of unrestricted net assets for our governmental activities stands at \$1.4 million, or about 52.6 percent of expenditures.

The following table shows the changes in net assets as of June 30, 2006 compared to the prior year:

Summary Condensed Income Statement:							
•	Government	al Activities	Business-type	e Activities	Tota	al	
_	2006	2005	2006	2005	2006	2005	
Revenue							
Program revenue:							
Charges for services	\$355,369	\$308,814	\$2,001,599	\$1,799,446	\$2,356,968	\$2,108,260	
Operating grants and contributions	363,662	363,009	-	-	363,662	363,009	
Capital grants and contributions	-	-	-	68,040	-	68,040	
General revenue:							
Property taxes	1,396,619	1,323,390	-	2,520	1,396,619	1,325,910	
State-shared revenue	466,617	470,226	-	-	466,617	470,226	
Interest	150,027	77,980	103,313	53,751	253,340	131,731	
Cable fees and other	229,183	209,962	35,500	-	264,683	209,962	
Total revenue	2,961,477	2,753,381	2,140,412	1,923,757	5,101,889	4,677,138	
Program Expenses							
Legislative	29,087	27,113	-	-	29,087	27,113	
General government	497,286	624,005	-	-	497,286	624,005	
Public safety	1,188,892	1,170,848	-	-	1,188,892	1,170,848	
Public works	632,372	709,396	-	-	632,372	709,396	
Recreation and cultural	286,841	117,035	-	-	286,841	117,035	
Interest on long-term debt	50,126	47,693	-	5,048	50,126	52,741	
Water	-	-	966,104	943,884	966,104	943,884	
Sewer _	-	-	761,344	724,686	761,344	724,686	
Total program expenses	2,684,604	2,696,090	1,727,448	1,673,618	4,412,052	4,369,708	
General Expenses							
Transfers In (Out)	35,784	57,981	(35,784)	(57,981)	-		
Change in Net Assets	312,657	115,272	377,180	192,158	689,837	307,430	
Net Assets - Beginning of year (Restated)	6,131,382	6,095,511	7,442,873	7,324,146	13,574,255	13,419,657	
Net Assets - End of year	\$6,444,039	\$6,210,783	\$7,820,053	\$7,516,304	\$14,264,092	\$13,727,087	

Governmental Activities

The City of Swartz Creek's total governmental revenues have increased by approximately \$200 thousand. This was due to the City increasing its fees in charging for services; the continuing increase in property taxes due to new construction and uncapping; delinquent personal property taxes being booked as revenue; interest rates being higher on investments; and a new cell tower bringing in new lease monies. This increase, which represents 6.7 percent of revenue, offset the decrease in state-shared revenue.

Expenses decreased by about \$19 thousand during the year. Increases were led by increases in health care costs and contractual wages. To offset this, the City closely monitored its spending in all other areas, including seasonal hiring and held off starting any new road projects.

Business-type Activities

The City of Swartz Creek's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Genesee County Water System. We provide sewage treatment through a sewage treatment plant operated by Genesee County Water and Waste. In 2005, the City raised the sewer rates for the first time in 10 years after absorbing any rate increases from Genesee County. Water rates were raised by the City in November, 2003 for the second time in 10 years. These combined two factors resulted in an operating income for fiscal 2005, compared to operating losses in each of the previous five years. Profits increased in 2006 by \$185 thousand. These profits will soon be offset by higher costs for water and sewer services from Genesee County and by capital outlay costs for the City's share of the Western Trunk Sewer Extension.

The City of Swartz Creek Funds

The fund financial statements provide detail information about the most significant funds, not the City of Swartz Creek as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2006 include the General Fund, the Major and Local Street Funds, the Garbage Collection Fund and others.

The General Fund pays for most of the City of Swartz Creek's governmental services. The most significant are police and city offices, which incurred expenses of approximately \$ 1.71 million in 2006.

General Fund Budgetary Highlights

Over the course of the year, the City of Swartz Creek amended the budget to take into account events during the year. The most significant change was to increase the appropriation for purchasing land by \$101,800. Since it is the City's policy to budget revenues a little shy of expected revenues, the actual revenues exceeded budgeted revenues by \$12 thousand. The City's departments overall stayed below budget, resulting in total expenditures \$31,865 below budget. Since a use of \$166 thousand of existing fund balance was budgeted by the amended

budget, the increase in actual revenues and the decrease in actual expenditures allowed the General Fund's fund balance to decrease only \$81,770 from \$ 1.131 million a year ago to \$1.049 million at June 30, 2006.

Capital Asset and Debt Administration

At the end of 2006, the City of Swartz Creek had \$ 8.353 million invested in a broad range of capital assets, including buildings, police and fire equipment, roads and water and sewer lines. At this time the only long term debt service the City has is Building Authority Bonds for the construction of City Hall (Finished in 2001) and the City's portion of Water Supply System Bonds (Debt to expire in 2008). In Fiscal 2007, the City anticipates a commitment for the City's portion of Sanitary Sewer Western Trunk Expansion.

Economic Factors and Next Year's Budgets and Rates

The City of Swartz Creek's budget for next year calls for a watchful eye on the State's budget cuts. If any further cuts are made in State Revenue Sharing or in ACT 51 monies, the City may have to consider cutting services. These revenues have become more important because of the impact of Proposal A; therefore, the City needs to continue to watch its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City of Swartz Creek will grow less than by inflation, before considering new property additions.

If Genesee County raises the water or sewer rates to the City, the City will be forced to pass the increases along to its customers. The maintenance on these aged lines is costly and the City no longer has more than enough unrestricted net assets to cover the costs of replacing the lines.

Contacting the City of Swartz Creek Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Swartz Creek's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office at 8083 Civic Drive, Swartz Creek, MI 48473.



STATEMENT OF NET ASSETS JUNE 30, 2006

Primary Government Governmental **Business-type** Component Activities Activities Total Units Assets Cash and investment pool \$ 3,232,469 2,950,161 6,182,630 \$ 82,824 Investments 192,936 Receivables 371,548 530,627 902,175 6,162 Inventory 29,472 29,472 Prepaid items 25,738 97,521 4,584 71,783 Capital assets, net: Assets not being depreciated 1,491,884 1,491,884 Assets being depreciated 2,405,120 4,456,517 6,861,637 21,821 **Total assets** 7,572,804 7,992,515 15,565,319 308,327 Liabilities Accounts payable and accrued expenses 306,870 58,360 134,408 172,462 Unearned revenue 2,315 Noncurrent liabilities: Due within one year 108,215 108,215 Due in more than one year 886,142 886,142 **Total liabilities** 172,462 1,301,227 60,675 1,128,765 **Net Assets** Invested in capital assets, net of related debt 2,971,841 4,456,517 21,821 7,428,358 Restricted for: Streets 1,332,661 1,332,661 Garbage collection 553,197 553,197 Public safety 3,590 3,590 Debt service 28,729 28,729 Capital projects 145,330 145,330 Unrestricted 1,408,691 225,831 3,363,536 4,772,227

The accompanying notes are an integral part of these financial statements.

Total net assets

6,444,039

\$ 14,264,092

\$ 247,652

7,820,053

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

<u>Functions / Programs</u>	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
Primary government						
Governmental activities:						
Legislative	\$ 29,087	\$ -	\$ -	\$ -	\$ (29,087)	
General government	497,286	128,388	906,445	-	537,547	
Public safety	1,188,892	108,932	-	-	(1,079,960)	
Public works	632,372	34,536	-	-	(597,836)	
Recreation and culture	286,841	7,347	-	-	(279,494)	
Interest on long-term debt	50,126				(50,126)	
Total governmental activities	2,684,604	279,203	906,445		(1,498,956)	
Business-type activities:						
Sewer	761,344	917,307	_	-	155,963	
Water	966,104	1,119,792			153,688	
Total business-type activities	1,727,448	2,037,099			309,651	
Total primary government	\$ 4,412,052	\$ 2,316,302	\$ 906,445	\$ -	\$ (1,189,305)	
Component units:						
Downtown Development Authority	17,077	_	_	-	(17,077)	
Senior Center	255,999	92,873	63,958		(99,168)	
Total component units	\$ 273,076	\$ 92,873	\$ 63,958	\$ -	\$ (116,245)	

	Primary Government						
			siness-type Activities	Total	Component Units		
Changes in net assets							
Net (expense) revenue	\$	(1,498,956)	\$	309,651	\$ (1,189,305)	\$	(116,245)
General revenues:							
Property taxes		1,396,619		-	1,396,619		103,139
Grants and contributions not							
restricted to specific programs		-		-	-		5,347
Unrestricted investment earnings		150,027		103,313	253,340		9,746
Other revenue		229,183		-	229,183		-
Transfers		35,784		(35,784)			
Total general revenues and transfers		1,811,613		67,529	1,879,142		118,232
Change in net assets		312,657		377,180	689,837		1,987
Net assets, beginning of year, as restated		6,131,382		7,442,873	13,574,255		245,665
Net assets, end of year	\$	6,444,039	\$	7,820,053	\$ 14,264,092	\$	247,652

FUND FINANCIAL STATEMENTS

CITY OF SWARTZ CREEK BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2006

ASSETS	General	Major Street	Local Street	Garbage Collection	G	Other overnmental Funds	Total
Cash and investment pool Accounts receivable Taxes receivable	\$ 873,114 17,302 43,487	\$ 1,109,285 3,668	\$ 172,010 524	\$ 571,391 746 14,215	\$	180,967 13,880	\$ 2,906,767 36,120 57,702
Due from other governmental units Prepaid expenditures	206,577 43,016	42,930	12,609			- -	262,116 43,016
TOTAL ASSETS	\$ 1,183,496	\$ 1,155,883	\$ 185,143	\$ 586,352	\$	194,847	\$ 3,305,721
LIABILITIES AND FUND BALANCES	5						
LIABILITIES							
Accounts payable	\$ 48,920	\$ 6,010	\$ 845	\$ 18,035	\$	260	\$ 74,070
Accrued liabilities	41,338	556	954	905		1,113	44,866
Deferred revenue	43,487	-	-	14,215		-	57,702
TOTAL LIABILITIES	133,745	6,566	1,799	33,155		1,373	176,638
FUND BALANCES							
Reserved for:							
Prepaid expenditures	43,016	-	-	-		-	43,016
Unreserved:							
Designated for subsequent							
years' expenditures Undesignated:	66,373	475,818	21,010	170,229		-	733,430
General Fund	940,362	_	_	_		_	940,362
Special Revenue Funds	_	673,499	162,334	382,968		19,415	1,238,216
Debt Service Funds	_	-	-	-		28,729	28,729
Capital Projects Funds	-	-	-	-		145,330	145,330
TOTAL FUND BALANCES	1,049,751	1,149,317	183,344	553,197		193,474	3,129,083
TOTAL LIABILITIES AND							
FUND BALANCES	\$ 1,183,496	\$ 1,155,883	\$ 185,143	\$ 586,352	\$	194,847	\$ 3,305,721

CITY OF SWARTZ CREEK RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS JUNE 30, 2006

Fund balances - total governmental funds	\$ 3,129,083
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets Deduct - accumulated depreciation	5,110,571 (1,465,970)
Other long-term assets are not available to pay for current period expenditures and therefore are either deferred or otherwise not recorded in the funds Add - deferred revenue	57,702
Internal service funds are used by management to charge the costs of fleet management to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	
Add - net assets of governmental activities accounted for in the internal service funds	615,125
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - long-term debt	(925,163)
Deduct - accrued interest on long-term debt	(8,115)
Deduct - compensated absences	 (69,194)
Net assets of governmental activities	\$ 6,444,039

CITY OF SWARTZ CREEK STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

			.	G 1	Other	
	General	Major Street	Local Street	Garbage Collection	Governmental Funds	Total
DEVENIEG						
REVENUES Taxes	\$ 990,955	5 - \$	_	\$ 345,925	\$ 2,037	\$ 1,338,917
Licenses and permits	126.547	· - •	-	\$ 343,923	\$ 2,037	126,547
Intergovernmental revenue	488,228	265,688	76,363	-	-	830,279
Charges for services	174,579	203,088	70,303	_	_	174,579
Fines and forfeitures	54,243	_	_	_	_	54,243
Interest and rentals	60,744	39,101	5,873	24,098	7,952	137,768
Other revenue	144,654	3,200	15,332	2,528	63,469	229,183
other revenue	144,054	3,200	13,332	2,320	05,407	227,103
TOTAL REVENUES	2,039,950	307,989	97,568	372,551	73,458	2,891,516
EXPENDITURES						
Current:						
Legislative	29.087	_	_	_	_	29.087
General government	442,429	-	_	-	-	442,429
Public safety	1,072,283	-	-	_	92,577	1,164,860
Public works	102,675	132,850	77,979	330,914	, -	644,418
Recreation and culture	261,173	· -	· <u>-</u>	-	-	261,173
Debt service	-	-	-	-	104,040	104,040
Capital outlay	19,411	-	-	-	104,852	124,263
TOTAL EXPENDITURES	1,927,058	132,850	77,979	330,914	301,469	2,770,270
REVENUES OVER (UNDER) EXPENDITURES	112,892	175,139	19,589	41,637	(228,011)	121,246
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	_	_	248,338	248,338
Transfers (out)	(194,662)	-	-	(17,892)	-	(212,554)
TOTAL OTHER FINANCING SOURCES (USES)	(194,662)	-	-	(17,892)	248,338	35,784
NET CHANGE IN FUND BALANCES	(81,770)	175,139	19,589	23,745	20,327	157,030
FUND BALANCES, BEGINNING OF YEAR AS RESTATED	1,131,521	974,178	163,755	529,452	173,147	2,972,053
FUND BALANCES, END OF YEAR	\$ 1,049,751	5 1,149,317 \$	183,344	\$ 553,197	\$ 193,474	\$ 3,129,083

CITY OF SWARTZ CREEK RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ 157,030
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay Deduct - depreciation expense	152,032 (106,627)
Certain revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenue in the funds, rather they are deferred to the following fiscal year.	
Add - increase in delinquent property taxes	57,702
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add - principal payments on long-term liabilities	53,417
Internal service funds are used by management to charge the costs of self insurance to individual governmental funds. The net revenue (expense) of the funds is reported with governmental activities.	
Add - interest revenue from governmental internal service funds Deduct - net operating loss from governmental activities in internal service funds Deduct - loss on disposal of capital assets	12,259 (16,435) (7,883)
Certain expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Add - decrease in compensated absences Add - decrease in accrued interest payable on bonds	10,725 437
Change in net assets of governmental activities	\$ 312,657

CITY OF SWARTZ CREEK GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
DEVENIUEC				
REVENUES	¢ 1.025.712	¢ 000.050	¢ 000.055	¢ (2)
Taxes	\$ 1,035,712 111,600		\$ 990,955 126,547	\$ (3)
Licenses and permits Intergovernmental revenue - federal	38,961	126,647 11,515	120,347	(100)
	472,915			(1.727)
Intergovernmental revenue - state		468,354 10,096	466,617	(1,737)
Intergovernmental revenue - local	8,757		10,096	1 274
Charges for services Fines and forfeitures	153,400	173,205	174,579	1,374
Interest and rentals	44,000	54,243	54,243	- 6 5 96
	32,000	54,158	60,744	6,586
Other revenue	129,850	138,019	144,654	6,635
TOTAL REVENUES	2,027,195	2,027,195	2,039,950	12,755
EXPENDITURES				
Legislative	37,793	29,076	29,087	(11)
General government	462,494	472,613	442,429	30,184
Public safety	1,011,660	1,061,635	1,072,283	(10,648)
Public works	131,261	102,679	102,675	4
Recreation and culture	260,415	267,334	261,173	6,161
Capital outlay	55,300	25,586	19,411	6,175
TOTAL EXPENDITURES	1,958,923	1,958,923	1,927,058	31,865
REVENUES OVER (UNDER) EXPENDITURES	68,272	68,272	112,892	44,620
OTHER FINANCING SOURCES (USES) Transfers (out)	(132,812)	(234,662)	(194,662)	40,000
NET CHANGE IN FUND BALANCES	(64,540)	(166,390)	(81,770)	84,620
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	1,131,521	1,131,521	1,131,521	
FUND BALANCES, END OF YEAR	\$ 1,066,981	\$ 965,131	\$ 1,049,751	\$ 84,620

CITY OF SWARTZ CREEK MAJOR STREETS FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Final Budget Budge				Actual			Variance Vith Final Budget Positive Negative)
REVENUES								
Intergovernmental:								
Gas and weight taxes	\$	465,000	\$	465,000	\$	265,688	\$	(199,312)
Interest	Ψ	6,700	Ψ	6,700	Ψ	39,101	Ψ	32,401
Other revenue		2,500		2,500		3,200		700
TOTAL REVENUES		474,200		474,200		307,989		(166,211)
EXPENDITURES PUBLIC WORKS								
Highways and streets:								
Occupational safety		130		139		138		1
Construction		673,225		822,270		33,454		788,816
Routine maintenance - streets		97,014		93,846		33,330		60,516
Routine maintenance - bridges		1,700		700		700		-
Traffic services		25,062		19,008		15,840		3,168
Winter maintenance		25,101		29,904		25,863		4,041
Administration		15,305		23,225		23,525		(300)
TOTAL EXPENDITURES		837,537		989,092		132,850		856,242
REVENUES OVER (UNDER) EXPENDITURES		(363,337)		(514,892)		175,139		690,031
OTHER FINANCING SOURCES (USES) Transfers (out)		(25,000)		(25,000)		-		25,000
NET CHANGE IN FUND BALANCE		(388,337)		(539,892)		175,139		715,031
FUND BALANCE, BEGINNING OF YEAR		974,178		974,178		974,178		
FUND BALANCE, END OF YEAR	\$	585,841	\$	434,286	\$	1,149,317	\$	715,031

CITY OF SWARTZ CREEK LOCAL STREETS FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original Final Budget Budget			Actual	Variance With Final Budget Positive (Negative)		
REVENUES							
Intergovernmental:							
Gas and weight taxes	\$	85,000	\$	85,000	\$ 76,363	\$	(8,637)
Interest		1,500		1,500	5,873		4,373
Other		10,500		10,500	15,332		4,832
TOTAL REVENUES		97,000		97,000	97,568		568
EXPENDITURES							
PUBLIC WORKS							
Highways and streets:		5 0		0.0	0.2		_
Occupational safety		50		88	83		5
Construction		-		28,627	880		27,747
Routine maintenance - streets		69,109		39,579	24,672		14,907
Routine maintenance - bridges Traffic services		1,350 7,262		350 3,672	350 3,718		(46)
Winter maintenance		30,761		30,463	25,353		5,110
Administration		16,805		22,558	22,923		(365)
Administration		10,803		22,336	22,923		(303)
TOTAL EXPENDITURES		125,337		125,337	77,979		47,358
REVENUES OVER (UNDER) EXPENDITURES		(28,337)		(28,337)	19,589		47,926
OTHER FINANCING SOURCES (USES) Transfers in		25,000		25,000	-		(25,000)
NET CHANGE IN FUND BALANCE		(3,337)		(3,337)	19,589		22,926
FUND BALANCE, BEGINNING OF YEAR		163,755		163,755	163,755		
FUND BALANCE, END OF YEAR	\$	160,418	\$	160,418	\$ 183,344	\$	22,926

CITY OF SWARTZ CREEK GARBAGE COLLECTION FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original	Variance With Final Budget Positive			
	 Budget	Budget	Actual	(1)	legative)
REVENUES					
Taxes	\$ 363,310	\$ 363,310	\$ 345,925	\$	(17,385)
Interest	4,500	4,500	24,098		19,598
Other revenue	 3,685	3,685	2,528		(1,157)
TOTAL REVENUES	 371,495	371,495	372,551		1,056
EXPENDITURES PUBLIC WORKS					
Sanitation collection	222,513	279,948	279,941		7
Wood chipping	113,695	56,260	50,128		6,132
Capital outlay	 141,000	141,000	845		140,155
TOTAL EXPENDITURES	 477,208	477,208	330,914		146,294
REVENUES OVER (UNDER) EXPENDITURES	(105,713)	(105,713)	41,637		147,350
OTHER FINANCING SOURCES (USES) Transfers (out)	(17,892)	(17,892)	(17,892)		
NET CHANGE IN FUND BALANCE	(123,605)	(123,605)	23,745		147,350
FUND BALANCE, BEGINNING OF YEAR	 529,452	529,452	529,452		
FUND BALANCE, END OF YEAR	\$ 405,847	\$ 405,847	\$ 553,197	\$	147,350

CITY OF SWARTZ CREEK STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2006

		Governmental Activities			
	Water	Sewer	Total	Inte	rnal Service
ASSETS					
CURRENT ASSETS					
Cash and investment pool	\$ 1,746,828	\$ 1,203,333	\$ 2,950,161	\$	325,702
Accounts receivable	300,242	230,385	530,627		15,610
Inventory	29,472	-	29,472		-
Prepaid items	 13,626	12,112	25,738		28,767
TOTAL CURRENT ASSETS	 2,090,168	1,445,830	3,535,998		370,079
CAPITAL ASSETS					
Building and system	4,673,441	3,045,315	7,718,756		-
Machinery and equipment	41,792	59,272	101,064		768,281
Less allowance for accumulated depreciation	 (2,122,112)	(1,241,191)	(3,363,303)		(515,878)
NET CAPITAL ASSETS	2,593,121	1,863,396	4,456,517		252,403
TOTAL ASSETS	4,683,289	3,309,226	7,992,515		622,482
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable	62,023	90,359	152,382		6,026
Accrued liabilities	 7,859	12,221	20,080		1,331
TOTAL LIABILITIES	 69,882	102,580	172,462		7,357
NET ASSETS					
Investment in capital assets	2,593,121	1,863,396	4,456,517		252,403
Unrestricted	 2,020,286	1,343,250	3,363,536		362,722
TOTAL NET ASSETS	\$ 4,613,407	\$ 3,206,646	\$ 7,820,053	\$	615,125

CITY OF SWARTZ CREEK PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Funds							ernmental Activities
		Water		Sewer		Total	Inter	nal Service
OPERATING REVENUES								
Charges for services	\$	1,089,193	\$,	\$	1,964,434	\$	-
Penalties		20,806		15,065		35,871		-
Equipment rental Miscellaneous		1 202		- 1		1 204		187,592
Miscenaneous		1,293		1		1,294		13,501
TOTAL OPERATING REVENUES		1,111,292		890,307		2,001,599		201,093
OPERATING EXPENSES								
Water operating		830,829		_		830,829		-
Meter reading and billing		48,583		29,407		77,990		-
Sewer operating		-		663,821		663,821		-
Sewer lift station operation		-		19,345		19,345		140.567
Motor pool operations Depreciation		86,692		48,771		125 462		140,567
Depreciation		80,092		46,771		135,463	-	76,961
TOTAL OPERATING EXPENSES		966,104		761,344		1,727,448		217,528
OPERATING INCOME (LOSS)		145,188		128,963		274,151		(16,435)
NONOPERATING REVENUES								
(EXPENSES)								
Interest revenues		61,685		41,628		103,313		12,259
Tap fees		8,500		27,000		35,500		- (7,002)
(Loss) on sale of assets		-		-				(7,883)
TOTAL NONOPERATING								
REVENUES (EXPENSES)		70,185		68,628		138,813		4,376
INCOME (LOSS) BEFORE								
TRANSFERS		215,373		197,591		412,964		(12,059)
TRANSFERS								
Transfers (out)		(17,892)		(17,892)		(35,784)		<u> </u>
CHANGE IN NET ASSETS		197,481		179,699		377,180		(12,059)
NET ASSETS, BEGINNING OF YEAR		4.44.5.05.5		2.025.217		5 442 050		405 101
AS RESTATED		4,415,926		3,026,947		7,442,873		627,184
NET ASSETS, END OF YEAR	\$	4,613,407	\$	3,206,646	\$	7,820,053	\$	615,125

CITY OF SWARTZ CREEK PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Funds						Governmental Activities		
		Water		Sewer	Total	Inter	nal Service		
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers and users	\$	1,069,301	\$	855,431	\$ 1,924,732	\$	-		
Receipts from interfund services provided		-		-	-		186,984		
Payments to employees		(165,461)		(119,396)	(284,857)		-		
Payments to suppliers		(755,101)		(590,915)	(1,346,016)		(159,240)		
NET CASH PROVIDED (USED) BY									
OPERATING ACTIVITIES		148,739		145,120	293,859		27,744		
OPERATING ACTIVITIES		146,739		143,120	293,839		21,144		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Transfers (out)		(17,892)		(17,892)	(35,784)		-		
Tap fees		8,500		27,000	35,500		-		
-									
NET CASH PROVIDED (USED) BY									
NONCAPITAL FINANCING ACTIVITIES		(9,392)		9,108	(284)		-		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							2 652		
Proceeds from the sale of capital assets		-		-			2,652		
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchase of investments		352,229		258,581	610,810		45,021		
Interest on investments		61,685		41,628	103,313		12,259		
NET CASH PROVIDED (USED) BY		44.0.4.4		200 200					
INVESTING ACTIVITIES		413,914		300,209	714,123		57,280		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		553,261		454,437	1,007,698		87,676		
CABII AND CABII EQUIVALENTS		333,201		757,457	1,007,050		07,070		
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		1,193,567		748,896	1,942,463		238,026		
CASH AND CASH EQUIVALENTS, END OF YEAR	\$	1,746,828	\$	1,203,333	\$ 2,950,161	\$	325,702		

CITY OF SWARTZ CREEK PROPRIETARY FUNDS STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2006

Governmental

	E		ctivities		
	Sewer	Water	Total	Inter	nal Service
Reconciliation of operating income to net cash provided (used) by operating activities: Operating income (loss) Adjustments to reconcile operating income to net cash provided (used)	\$ 145,188	\$ 128,963	\$ 274,151	\$	(16,435)
by operating activities: Depreciation Changes in assets and liabilities:	86,692	48,771	135,463		76,961
Accounts receivable	(41,991) (34,876)	(76,867)		(14,109)
Inventory	(18,747		(18,747)		6,066
Prepaid items	(13,626	(12,112)	(25,738)		(28,767)
Accounts payable	(15,271) 3,478	(11,793)		2,938
Accrued liabilities	6,494	10,896	17,390		1,090
Net cash provided (used) by operating activities	\$ 148,739	\$ 145,120	\$ 293,859	\$	27,744

CITY OF SWARTZ CREEK FIDUCIARY FUNDS STATEMENT OF ASSETS AND LIABILITIES JUNE 30, 2006

<u>ASSETS</u>	AGENCY FUNDS					
Cash and cash equivalents Other assets	\$	103,980 359,888				
TOTAL ASSETS	\$	463,868				
Due to other governmental units Deposits payable	\$	384,079 79,789				
TOTAL LIABILITIES	\$	463,868				

CITY OF SWARTZ CREEK COMBINING STATEMENT OF NET ASSETS DISCRETELY PRESENTED COMPONENT UNITS JUNE 30, 2006

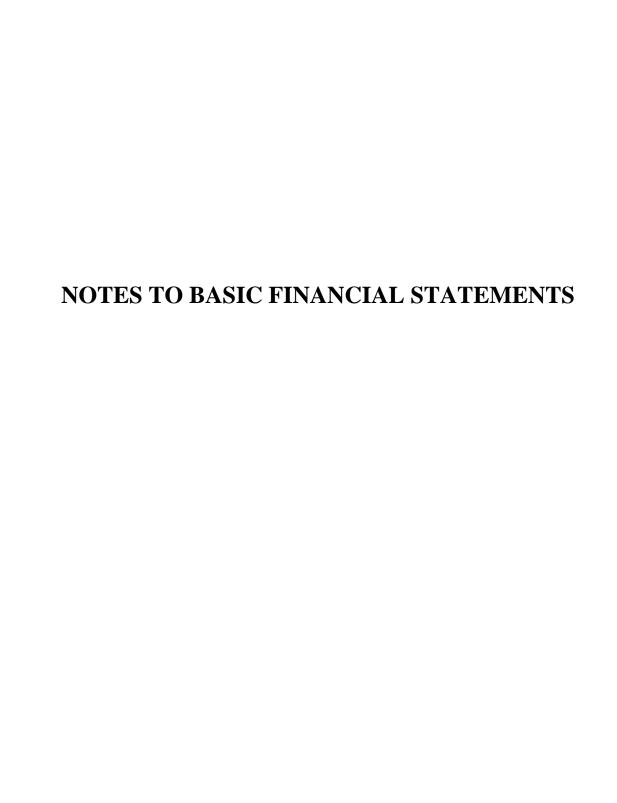
	owntown velopment	Senior Citizens	
	uthority	Authority	Total
ASSETS	•	•	
Cash and cash equivalents	\$ 41,069	\$ 41,755	\$ 82,824
Investments	=	192,936	192,936
Accounts receivable	161	6,001	6,162
Prepaid items	-	4,584	4,584
Capital assets, net:			
Assets being depreciated	-	21,821	21,821
TOTAL ASSETS	41,230	267,097	308,327
TOTAL ASSETS	 41,230	201,091	300,321
LIABILITIES			
Accounts payable	1,767	221	1,988
Due to other governmental units	55,310	-	55,310
Accrued liabilities	_	1,062	1,062
Unearned revenue	 -	2,315	2,315
TOTAL AND WATER	55.055	2.700	60 6 7 7
TOTAL LIABILITIES	 57,077	3,598	60,675
NET ASSETS			
Investment in capital assets	-	21,821	21,821
Unrestricted (deficit)	(15,847)	241,678	225,831
TOTAL NET ASSETS	\$ (15,847)	\$ 263,499	\$ 247,652

CITY OF SWARTZ CREEK COMPONENT UNITS COMBINING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Functions / Programs		Expenses	Charges Services	Gı	perating cants and atributions	Gr	Capital ants and tributions	t (Expense) Revenues
Component unit Downtown Development Authority Governmental Activities: Operations	\$	17,077	\$ -	\$	-	\$	-	\$ (17,077)
Senior Citizens Authority Governmental Activities: Operations		255,999	 92,873		63,958			 (99,168)
Total component units	\$	273,076	\$ 92,873	\$	63,958	\$	_	\$ (116,245)

CITY OF SWARTZ CREEK COMPONENT UNITS COMBINING STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

	Dev	owntown velopment uthority	(Senior Citizens Authority	Total
Change in net assets					
Net (expense) revenue	\$	(17,077)	\$	(99,168)	\$ (116,245)
General revenues:					
Property taxes		-		103,139	103,139
Unrestricted grants and contributions		-		5,347	5,347
Unrestricted investment earnings		1,230		8,516	9,746
Total general revenues		1,230		117,002	 118,232
Change in net assets		(15,847)		17,834	1,987
Net assets, beginning of year				245,665	 245,665
Net assets (deficit), end of year	\$	(15,847)	\$	263,499	\$ 247,652



NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Swartz Creek (City) was incorporated in 1959, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire inspections), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Component Units

In conformity with generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Unit

For financial reporting purposes, City of Swartz Creek Building Authority has been reported as if it were a part of this City's operations because:

- City pledged its full faith and credit as a guarantee for the Authority's outstanding debt
- City is obligated to fund deficits of the Authority

Discretely Presented Component Units

The component unit column in the government-wide financial statements presents the financial data of the Swartz Creek Area Senior Citizens, Inc. The Swartz Creek Area Senior Citizens, Inc. is a legally separate nonprofit organization with the majority of the Board of Directors elected by the general membership. However, the majority of the revenue of the organization is collected from a tax levy by the City of Swartz Creek and the building and utilities are furnished by the City. As a result, the Swartz Creek Area Senior Citizens, Inc. is considered fiscally dependent on the City.

NOTES TO FINANCIAL STATEMENTS

The financial statements of the Swartz Creek Area Senior Citizens, Inc. are audited separately and may be obtained at the following address: 8095 Civic Drive, Swartz Creek, Michigan 48473.

The City has established the Swartz Creek Downtown Development Authority (Authority), in accordance with State law to promote and rehabilitate the downtown area. The Authority was formed to construct certain improvements in the downtown area. State law provides for a specific tax levy for the operations of the Authority. The City appoints the Board and has to approve the annual budget and the issuance of any debt. Any surplus funds remaining at the termination of the Authority vest to the City.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (e.g., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component* units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources* measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Major and Local Street Funds* account for the City's share of proceeds from gas and weight taxes levied by the State and distributed to local governmental units. State law requires that these taxes be used for street maintenance and construction.

The *Garbage Collection Fund* accounts for a special property tax millage allowed to provide garbage and compost collection services.

NOTES TO FINANCIAL STATEMENTS

The City reports the following major proprietary funds:

The *Water Fund* accounts for the operations of the water distribution system.

The Sewer Fund accounts for the operations of the sewage pumping and collection system.

Additionally, the City reports the following fund types:

Internal Service Fund - Services provided to other departments of the government on a cost reimbursement basis. The City has a motor pool internal service fund.

Agency Funds accounts for assets held by the City as an agent for individuals, private organizations, and other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the *City*. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenue* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenue* rather than as program revenues. Likewise, general revenues include all taxes and interest income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services,

NOTES TO FINANCIAL STATEMENTS

administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The City has classified all checking/sweep accounts as cash and cash equivalents.

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or more when purchased to be investments. Investments are reported on the balance sheet at fair value.

2. RECEIVABLES AND PAYABLES

In general, outstanding balances between funds are reported as "due to/from other funds," activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. INVENTORIES AND PREPAID ITEMS

Inventories are valued at the lower of cost or market using the first-in/first-out (FIFO) method. Inventory consists of expendable supplies for consumption.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets

NOTES TO FINANCIAL STATEMENTS

are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Costs to construct or substantially rehabilitate major networks and subsystems of infrastructure assets in the fiscal year ended June 30, 2004 were capitalized and are reported as infrastructure capital assets in the Statement of Net Assets. Infrastructure capital assets will continue to be capitalized prospectively, beginning with the year ended June 30, 2004. The City is not required to retroactively determine costs and accumulated depreciation for infrastructure assets acquired prior to July 1, 2003 and record those assets on the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset's lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Buildings	50
Land improvements	20
Water and sewer systems	50-75
Machinery and equipment	3-20
Roads	25

5. COMPENSATED ABSENCES

In accordance with contracts negotiated with the various employee groups of the City of Swartz Creek, individual employees have a vested right upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vacation pay is accrued annually in the government-wide and proprietary fund financial statements.

6. LONG-TERM OBLIGATIONS

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

NOTES TO FINANCIAL STATEMENTS

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. REVENUES, EXPENDITURES, AND EXPENSES

Property tax

The City's property tax is levied each July 1 on the taxable value determined as of December 31 of the preceding year for all taxable real and personal property located in the City. On July 1, the property tax attachment is an enforceable lien on the property.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY BUDGETARY INFORMATION

A. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the first meeting in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures, and the means of financing them, for the General and Special Revenue Funds.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to July 1, the budget was legally enacted on a total fund basis for the 2006 fiscal year, through passage of a resolution in accordance with Public Act 621

NOTES TO FINANCIAL STATEMENTS

of 1978 of the State of Michigan. All budgets are enacted in accordance with generally accepted accounting principles (GAAP).

- 4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
- 5. Budget appropriations lapse at year end, except for certain Major Street Fund construction activity budgeted on a project length basis.
- 6. The original budget was amended during the year in compliance with the City Charter and applicable state law. The budget to actual expenditures in the financial statements represents the final budgeted expenditures as amended by the City.
- 7. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended June 30, 2006, the City incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated at the function level as follows:

Fund	Appropriation	Expenditure	Excess Expenditure
General Fund:			
Legislative	\$ 29,076	\$ 29,087	\$ (11)
Public safety	1,061,635	1,072,283	(10,648)
Special Revenue Funds:			
Major Streets Fund:			
Administration	23,225	23,525	(300)
Local Streets Fund:			
Traffic services	3,672	3,718	(46)
Administration	22,558	22,923	(365)

The above items represent violations of the City's budgeting policies. Revenues were sufficient to cover all expenditures.

NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

A reconciliation of cash, pooled investments and investments as shown in the basic financial statement for the City's deposits and investments is as follows:

	Carrying
	Amount
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and investment pool	\$ 6,182,630
Component Units:	
Cash and investment pool	82,824
Investments	192,936
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	103,980
Total	\$ 6,562,370
Notes to Financial Statements:	
Deposits	\$ 1,441,095
Investments	5,120,199
Cash on hand	1,076
Total	\$ 6,562,370

Statutory Authority

The City is authorized by the State to invest surplus funds in the following:

- Bonds, securities, repurchase agreements and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

NOTES TO FINANCIAL STATEMENTS

- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Deposits and investments

The City chooses to disclose its investments by specifically identifying each. As of June 30, 2006, the City had the following investments.

<u>Investment</u>	Maturity	Fair Value	Rating
MBIA Michigan CLASS pool	n/a	\$ 1,740,097	$A\overline{A}A / V1+$
Chase Money Market Sweep	n/a	3,380,102	n/a
Total		\$ 5,120,199	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City's investment in the MBIA Michigan CLASS pool is rated AAA / V1+ by Fitch. The City's investment in the Chase Money Market Sweep is not rated.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end \$181,747 of the City's bank balance of \$1,377,073 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. The City's investment is in the MBIA Michigan CLASS pool, not the securities that make up the pool. The City's investment in the Chase Money Market Sweep is uncategorized as to credit risk. Therefore, there is no custodial credit risk to be disclosed.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. Pooled investments and money market sweep accounts are excluded from the 5% disclosure requirement.

B. RECEIVABLES

Receivables in the primary government and component units are as follows:

	Governmental Activities	Business-type Activities	Component Units	
Taxes/special				
assessments	\$ 57,702	\$ -	\$ -	
Accounts	38,924	523,709	6,001	
Interest	12,806	6,918	161	
Intergovernmental	<u>262,116</u>	_		
Total	\$ 371,548	\$ 530,627	<u>\$ 6,162</u>	

NOTES TO FINANCIAL STATEMENTS

C. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

·	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities:				
Capital assets, not being				
depreciated:				
Land	\$ 1,364,467	\$ 101,801	\$ -	\$ 1,466,268
Construction in progress		25,616		25,616
Total, capital assets not being				
depreciated	1,364,467	127,417		1,491,884
Capital assets, being depreciated:				
Buildings	2,260,325	2,850	-	2,263,175
Land improvements	525,789	8,234	-	534,023
Machinery and equipment	1,548,827	13,531	(73,051)	1,489,307
Roads	100,463			100,463
Total, capital assets being				
depreciated	4,435,404	24,615	(73,051)	4,386,968
Less accumulated depreciation:				
Buildings	(674,108)	(45,184)	_	(719,292)
Land improvements	(312,886)	(11,022)	_	(323,908)
Machinery and equipment	(871,775)	(125,372)	62,517	(934,630)
Roads	(2,009)	(2,009)	_	(4,018)
Total accumulated depreciation	(1,860,778)	(183,587)	62,517	(1,981,848)
Total capital assets being				
depreciated, net	2,574,626	<u>(158,972</u>)	(10,534)	2.405,120
Total capital assets, net	<u>\$ 3,939,093</u>	<u>\$(31,555</u>)	<u>\$ (10,534</u>)	<u>\$ 3,897,004</u>

NOTES TO FINANCIAL STATEMENTS

Pusiness type activities	Beginning Balance	Additions	<u>Disposals</u>	Ending Balance
Business-type activities: Capital assets, being				
depreciated:				
Machinery and equipment	\$ 101,066	\$ -	\$ -	\$ 101,066
Water and sewer systems	7,718,754			7,718,754
Total, capital assets being				
depreciated	7,819,820			<u>7,819,820</u>
Less accumulated depreciation:				
Machinery and equipment	(60,602)	(8,068)	-	(68,670)
Water and sewer systems	(3,167,238)	(127,395)		(3,294,633)
Total accumulated depreciation	(3,227,840)	(135,463)		(3,363,303)
Business-type activities capital, net	<u>\$ 4,591,980</u>	<u>\$(135,463</u>)	<u>\$ -</u>	<u>\$ 4,456,517</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

\sim	4 1	4 • •	4 •
Governm	ental	activi	tiec.

General government	\$ 54,880
Public safety	39,333
Public works	56,985
Recreation and cultural	32,389

Total depreciation expense

— governmental activities <u>\$ 183,587</u>

Business-type activities:

Water \$ 86,692 Sewer 48,771

Total depreciation expense

— business-type activities <u>\$ 135,463</u>

NOTES TO FINANCIAL STATEMENTS

D. INTERFUND TRANSFERS

The composition of interfund transfers as of June 30, 2006 is as follows:

Operating transfers:

	<u>Transfer In</u> Nonmajor
	Governmental
Transfer out:	
General fund	\$ 194,662
Garbage Collection	17,892
Water fund	17,892
Sewer fund	17,892
Total transfers out	<u>\$ 248,338</u>

Transfers were made from the general, garbage collection, water and sewer funds to fund debt service requirements for the construction of City Hall. Transfers were made from the general, water and sewer funds to capital projects funds to construct and acquire capital assets.

E. PAYABLES

Accounts payable and accrued liabilities in the primary government and component units are as follows:

	Governmental	Business-type	Component
	Activities	Activities	Units
Accounts	\$ 104,420	\$ 152,382	\$ 1,988
Wages	21,873	20,080	1,062
Interest	8,115	-	-
Intergovernmental	_	_	55,310
Total	<u>\$ 134,408</u>	<u>\$ 172,462</u>	\$ 58,360

NOTES TO FINANCIAL STATEMENTS

F. LONG-TERM DEBT

A summary of long-term liability transactions for the year ended June 30, 2006, and the composition of the June 30, 2006, long-term debt balance follows:

	Final Payment Due	Interest Rate or Range	Original Amount of Issue	Balance at June 30, 2005	Issuances (Retire- ments) During Yea	Balance at June 30, r 2006	Due Within One Year
Governmental Activities:							
Building Authority Bonds	s:						
Series 2001	5/20/21	4.25-5.65%	\$995,000	\$895,000	\$ (25,000)	\$870,000	\$25,000
1998 Genesee County Water Supply System							
Refunding Bonds	4/2008	4.45-4.50%	283,615	83,580	(28,417)	55,163	27,860
Accumulated vacation and sick pay				79,919	101,935 (112,660)	69,194	<u>\$55,355</u>
Total			<u>\$</u>	1,058,499	<u>\$ (64,142)</u> \$	994,357	\$108,215

Annual debt service requirements to maturity for the above bond obligations are as follows:

Year End	Governmen	tal Activities
June 30,	Principle	Interest
2007	\$ 52,860	\$ 47,911
2008	52,303	45,546
2009	50,000	43,130
2010	50,000	40,755
2011	50,000	38,380
2012-2016	275,000	154,900
2017-2021	395,000	68,425
Total	<u>\$ 925,163</u>	<u>\$ 439,047</u>

Accumulated vacation and sick pay are generally liquidated by the general fund.

Building Authority Bonds:

The City of Swartz Creek is party to a long-term lease agreement for rental of a building and parking structure with the City of Swartz Creek Building Authority (Building Authority). The Building Authority was created pursuant to the provisions of Public Act 31 for the purpose of financing and constructing City facilities.

NOTES TO FINANCIAL STATEMENTS

The lease stipulates that fixed annual rentals will be paid to the Authority and such rentals are pledged exclusively for payment of principal and interest on revenue bonds issued by the Authority to finance the various projects. The lease agreement also provides that after all revenue bonds are retired, the fixed annual rentals will cease, and title to all buildings and structures shall vest in the City of Swartz Creek.

The City's full faith and credit is pledged for the payment of these rentals (subject to constitutional limitations). The lease agreement is essentially a financing vehicle for the City of Swartz Creek to purchase buildings and structures. Under provisions of generally accepted accounting principles for these types of leases, the assets and related liabilities encompassed by the lease are included in the statement of net assets of the lessee (City of Swartz Creek) as if these assets were purchased and financed by the lessee. These assets and liabilities are normally measured by the lesser of fair market value of the property at the inception of lease or present value of the minimum lease payments (discounted at the lessee's incremental borrowing rate) at the beginning of the lease term. Since the minimum lease payments are the payments required to retire the debt, the assets are shown at fair market value at the inception of the lease (cost) and the related lease liabilities are the outstanding revenue bonds related to the leased assets. The capital assets owned by the Authority and included in the City's financial statements in the statement of net assets at June 30, 2006, have an accumulated cost of \$788.137.

The Building Authority bonds are due in annual installments of \$25,000 to \$95,000 through May 5, 2021. Interest is paid semi-annually at rates ranging from 4.25% to 5.65%. The outstanding balance payable at June 30, 2006 is \$870,000.

Defeased debt:

During 1998, the City defeased its 1969 Genesee County Water Supply System No. I Bonds by issuing the 1998 Refunding bonds. The proceeds were placed in an irrevocable trust to provide for all future debt service payments on the old contract. Accordingly, the trust account assets and the liability for the defeased contract are not included in the financial statements. At June 30, 2006, \$55,163 of the contract is still outstanding.

G. PROPERTY TAXES

Property taxes are levied based on assessed values of property located in the City. Assessed values are established annually and equalized by the state at an estimated 50% of current market value. A comparison of assessed and taxable property values for the 2004 tax levy is as follows:

NOTES TO FINANCIAL STATEMENTS

	Assessed Value	Taxable Value
Real property Personal property	\$ 217,614,851 23,688,465	\$ 183,289,230 23,688,465
Total	<u>\$ 241,303,316</u>	<u>\$ 206,977,695</u>

The City is permitted by charter to levy up to \$5.00 (5 mills) per \$1,000 of state taxable value for general governmental services. For the year ended June 30. 2006, the City levied \$4.8289 for general governmental services and \$1.75 for garbage per \$1,000 of state taxable valuation. The City is permitted to levy unlimited amounts for payment of existing general long-term debt obligations. As of June 30, 2006, \$.01 (.01 mill) per \$1,000 of state taxable valuation was being levied for long-term debt retirement. A levy of .4981 mills is levied on the behalf of the Senior Center of which the City is financially accountable.

IV. OTHER INFORMATION

A. RISK MANAGEMENT AND CONTINGENT LIABILITIES

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The City participates in a public entity risk pool that assumes the risk of loss for these claims. Settled claims for the insurance provided by the Pool have not exceeded the amount of pool coverage in any of the past three fiscal years. As a participant in the pool, the City has the responsibility to promptly pay all annual premiums, promptly report all incidents, follow all loss reduction and prevention procedures established by the Pool, provide the City's annual budget and audited financial statements, and cooperate fully with the Pool and its attorneys in the investigation, litigation, and settlement of liability claims. The City obtains fleet insurance, employee dishonesty, property, and general tort coverage through the Pool. The City carries \$5,000,000 of liability coverage with a \$1,000 per claim deductible on property, computer equipment, and mechanical systems.

The City participates in the Michigan Municipal Workers' Compensation Self-Insurer's Fund administered by the Michigan Municipal League. The Fund provides coverage for workers' compensation claims subject to a maximum limit of \$500,000 per occurrence.

The City participates in the federally assisted Community Development Block Grant Program and COPS Programs. These programs are subject to monitoring by the granting agency. The granting agency has yet to make final approval of the expenditures charged to the grant. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

NOTES TO FINANCIAL STATEMENTS

B. FEDERAL AWARDS

It is required by the Michigan Department of Transportation (MDOT) that governmental units report total federal awards for highway research, planning and construction pertaining to their unit. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act. The reason for this requirement is that the City is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended June 30, 2006, the City of Swartz Creek did not have \$500,000 of federal awards (local force revenue) applicable to force account expenditures. As a result, an audit in compliance with OMB Circular A-133 and the Single Audit Act was not required.

C. JOINT VENTURE AGREEMENT

The Swartz Creek Area Fire Board (Fire Board) has been organized as a joint venture of the City of Swartz Creek and the Township of Clayton (Township), The organizational agreement provides for a joint exercise of power and the establishment of a separate administrative entity. Members of the Fire Board are appointed by the City and Township. The participating units provide revenue to the Fire Board on the basis of fire runs. The City and Township have provided the Fire Board with the use of several vehicles and real property. Title to these vehicles remains with the contributing unit of Government.

During the year ended June 30, 2006, the City was billed \$32,982 by the Authority. At year end, the City owed \$3,350 to the Authority for fire run services.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Audited financial statements are available for public inspection at the Fire Board headquarters.

NOTES TO FINANCIAL STATEMENTS

D. POST-RETIREMENT BENEFITS

The City provides healthcare coverage for retired employees with twenty-five (25) years of service in the MERS retirement plan. The expenditures for the post-retirement health care benefits are funded on a pay-as-you-go basis. At June 30, 2006 the City had six retired employees receiving benefits. The cost of the benefits provided during the year ended June 30, 2006 was \$26,717.

E. DEFINED BENEFIT PENSION PLAN - MERS

The City of Swartz Creek participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. All employees hired prior to July 1, 1997 and all police officers are eligible to participate in the plan. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy — City employees are required to contribute to the plan at the following rates: general employees — 2.00%, police — 2.5%, and supervisors — 4%. The City is required to contribute at an actuarially determined rate, which is revised annually. The City's current contribution rate is a certain percent of annual covered payroll for each category of city employee. Rates for June 30, 2006 were general employees — 3.16%, police — 6.89%, and supervisors — 45.03%. Employer contributions fund a specific pension benefit for the employees of the City. The contribution requirements of plan members and the City are established and may be amended by the MERS Board of Trustees.

Annual Pension Cost - For the fiscal year ended June 30, 2006, the City's annual pension cost of \$121,082 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions as of the date of the most recently completed actuarial valuation on December 31, 2005 included (1) a rate of return on the investments of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority\merit. The actuarial value

NOTES TO FINANCIAL STATEMENTS

of the City's assets was determined using techniques that prospectively smooth the effects of short term volatility in the market value of investments over a 10 year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll contributions, using a prospective gradual reduction of the amortization period for open divisions from 30 years to 25 years.

Three-Year Trend Information for The City of Swartz Creek

Fiscal	Annual	Percentage	Net
Year	Pension	of APC	Pension
<u>Ending</u>	Cost (APC)	Contributed	Obligation
June 30, 2004	\$ 40,611	100%	\$ -
June 30, 2005	77,439	100	-
June 30, 2006	121,082	100	-

Analysis of Retirement System Funding Progress

Actuarial ValuationDate*	Actuarial Value of Assets (a)	Accrued Actuarial Liability (AAL) Entry Age (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/c)
12/31/03	\$6,503,853	\$6,934,536	\$ 430,683	94%	\$ 750,808	57%
12/31/04	6,653,737	7,570,708	916,971	88	813,191	113
12/31/05	6,813,379	7,576,107	762,728	90	799,468	95

^{*}Most recent valuation completed as of opinion date.

F. DEFINED CONTRIBUTION PENSION PLAN

The City has adopted by ordinance, a defined contribution money purchase pension plan administered by MERS and the ICMA Retirement Corporation. The plan is for all full time supervisors and employees represented by AFSCME hired after July 1, 1997. Employees hired prior to that date that do not participate in the defined benefit plan (MERS) may also participate in the defined contribution plan. The employee must be 18 years of age to participate in the plan.

NOTES TO FINANCIAL STATEMENTS

The plan requires employer contributions of 6% of supervisors' wages and 5% of AFSCME employee's annual compensation. No employee contributions are required, but voluntary contributions can be made by the participants in accordance with IRS regulations. Participants vest in the employer contribution at the rate of 20% for each year of employment, becoming fully vested after five years.

During the year ended June 30, 2006, the City contributed \$15,065 to the plan. Employee voluntary contributions were \$9,814. Payroll costs of all employees and plan participants amounted to \$1,266,257 and \$287,832, respectively. It is the policy of the City to pay the pension costs as incurred.

G. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries. As a result the assets are not reported by the City.

H. CONSTRUCTION CODE REVENUES/EXPENDITURES

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The activity related to construction code activity for the year ended June 30, 2006 is as follows:

Construction permit revenue \$ 60,498

Less expenditures: (140,399)

Expenditures over revenue \$ 79,901

NOTES TO FINANCIAL STATEMENTS

V. RESTATEMENTS / PRIOR PERIOD ADJUSTMENTS

During the year ended June 30, 2006, a restatement in the amount of \$22,690 was necessary to properly account for payroll liabilities in the General Fund. The error has been corrected and had the following effect on the beginning fund balance:

Beginning fund balance, as previously reported	\$ 1,154,211
Adjustment for payroll liabilities	(22,690)
Beginning fund balance, as restated	\$ 1,131,521

During the year ended June 30, 2006, a restatement in the amount of \$913 was necessary to properly account for accounts payable in the Local Streets Special Revenue Fund. The error has been corrected and had the following effect on the beginning fund balance:

Beginning fund balance, as previously reported Adjustment for accounts payable	\$ 162,842 <u>913</u>
Beginning fund balance, as restated	<u>\$ 163,755</u>

During the year ended June 30, 2006, a net restatement in the amount of \$73,430 was necessary to properly account for capital assets, accounts payable, long-term debt and net assets in the Water Enterprise Fund. These adjustments were necessary because at June 30, 2005, activity of the Water Transmission Debt Service Fund was accounted for as a component of the Water Enterprise Fund, whereas that activity is being accounted for in a separate fund for the year ended June 30, 2006. The error has been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$	4,489,356
Adjustment for modified accrual equity at June 30, 2005		(44,419)
Adjustment for accounts payable		(37)
Adjustment for capital assets related to water transmission		(112,554)
Adjustment for long-term debt related to water transmission	_	83,580
Beginning net assets, as restated	\$	4,415,926

NOTES TO FINANCIAL STATEMENTS

During the year ended June 30, 2006, a restatement in the amount of \$9,854 was necessary to properly account for accounts receivable in the Special Assessments Special Revenue Fund. The error has been corrected and had the following effect on the beginning fund balance:

Beginning fund balance, as previously reported Adjustment for accounts receivable	\$ 22,640 (9,854)
Beginning fund balance, as restated	\$ 12,786

During the year ended June 30, 2006, a restatement in the amount of \$44,419 was necessary to properly account for the Water Transmission Debt Service Fund. Activity of this fund was accounted for as a component of the Water Enterprise Fund in the prior year and is accounted for as a separate fund for the year ended June 30, 2006. The error has been corrected and had the following effect on the beginning fund balance:

Beginning fund balance, as previously reported	\$ -
Adjustment for equity at June 30, 2005	 44,419
Beginning fund balance, as restated	\$ 44,419

During the year ended June 30, 2006, a net restatement in the amount of \$(79,404) was necessary to properly account for capital assets, receivables, payables and long-term debt in the governmental activities. The error has been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ 6,210,786
Net effect of governmental fund corrections	12,788
Adjustment for Water transmission debt at June 30, 2005	(83,580)
Adjustment for accrued interest payable at June 30, 2005	(8,612)
Beginning fund balance, as restated	<u>\$ 6,131,382</u>

NOTES TO FINANCIAL STATEMENTS

During the year ended June 30, 2006, a restatement in the amount of \$73,730 was necessary to properly account for capital assets, long-term debt and net assets in the Business-type activities. The error has been corrected and had the following effect on the beginning fund balance:

Beginning net assets, as previously reported	\$ 7,516,303
Net effect of enterprise fund corrections	(73,430)
Beginning net assets, as restated	\$ 7,442,873

SUPPLEMENTARY INFORMATION

CITY OF SWARTZ CREEK NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2006

	SPECIAL REVENUE FUNDS							
ASSETS		Drug orcement	Special Assessments					
Cash and investment pool Accounts receivable	\$	(8,608) 13,311	\$	16,085				
TOTAL ASSETS	\$	4,703	\$	16,085				
LIABILITIES AND FUND BALANCES LIABILITIES Accounts payable Accrued liabilities	\$	- 1,113	\$	260				
TOTAL LIABILITIES		1,113		260				
FUND BALANCES Reserved for debt service Reserved for capital projects Unreserved, undesignated TOTAL FUND BALANCES		3,590		15,825 15,825				
TOTAL LIABILITIES AND FUND BALANCES	\$	4,703	\$	16,085				

Ι	DEBT SERV	/ICI	E FUNDS	\mathbf{C}_{A}							
			Water								
	City	Tr	ansmission Capital Capital								
	Hall		Debt		Projects		Projects		Total		
\$	13,655	\$	15,074	\$	32,806	\$	111,955	\$	180,967		
Ψ	-	Ψ	-	Ψ	129	Ψ	440	Ψ	13,880		
\$	13,655	\$	15,074	\$	32,935	\$	\$ 112,395		194,847		
\$	_	\$	_	\$	_	\$	_	\$	260		
·	_	,	-	·	-	·	-	·	1,113		
	-		-				_		1,373		
	12 655		15.074						29.720		
	13,655		15,074		22 025		112 205		28,729		
	-		-		32,935		112,395		145,330 19,415		
			-		-		-		17,413		
	13,655		15,074		32,935		112,395		193,474		
\$	12 655	\$	15 074	\$	22.025	\$	112 205	\$	104.947		
Ф	13,655	Ф	15,074	Ф	32,935	Ф	112,395	Ф	194,847		

CITY OF SWARTZ CREEK NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	SPEC	SPECIAL REVENUE FUNDS					
		Orug rcement	Special Assessments				
REVENUES							
Taxes	\$	-	\$ -				
Interest		480	_				
Other revenue		46,859	3,299				
TOTAL REVENUES		47,339	3,299				
EXPENDITURES							
Public safety		92,317	260				
Capital outlay		-	_				
Debt service							
Principal		-	_				
Interest and fees	-	-					
TOTAL EXPENDITURES		92,317	260				
REVENUES OVER (UNDER) EXPENDITURES		(44,978)	3,039				
OTHER FINANCING SOURCES (USES)							
Transfers in		36,420	-				
NET CHANGE IN FUND BALANCE		(8,558)	3,039				
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED		12,148	12,786				
FUND BALANCES, END OF YEAR	\$	3,590	\$ 15,825				

$\mathbf{\Gamma}$	DEBT SERV	ICE FUNDS	CAPITAL PROJECTS FUNDS									
		Water	Fire									
	City	Transmission		Capital	Capital Capital							
	Hall	Debt		Projects	Projects			Total				
\$	_	\$ 2,037	\$	_	\$	_	\$	2,037				
Ψ	1,420	550	Ψ	1,319	Ψ	4,183	Ψ	7,952				
	-,	265		13,046		-,		-		-		63,469
				,								
	1,420	2,852		14,365		4,183		73,458				
	-	-		-		-		92,577				
	-	-		104,852	-		-					
	25,000	28,417		-		-		53,417				
	46,843	3,780		<u>-</u>		-		50,623				
	71,843	32,197		104,852		_		301,469				
	71,043	32,197		104,032		<u>-</u> _		301,409				
	(70,423)	(29,345)		(90,487)		4,183		(228,011)				
	71,568	-		120,350		20,000		248,338				
	1,145	(29,345)		29,863		24,183		20,327				
	12,510	44,419		3,072		88,212		173,147				
\$	13,655	\$ 15,074	\$	32,935	\$	112,395	\$	193,474				

AGENCY FUNDS COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

JUNE 30, 2006

<u>ASSETS</u>	Trust & Agency		Current Tax Collection		Winter Tax		Tax In Lieu of Mari-Dan		elinquent Personal Property Tax	 Total
Cash and cash equivalents Delinquent taxes receivable	\$ 79,789 -	\$	540	\$	1,293	\$	21,758	\$	600 359,888	\$ 103,980 359,888
TOTAL ASSETS	\$ 79,789	\$	540	\$	1,293	\$	21,758	\$	360,488	\$ 463,868
<u>LIABILITIES</u>										
Due to other governmental units Deposits payable	\$ - 79,789	\$	540	\$	1,293	\$	21,758	\$	360,488	\$ 384,079 79,789
TOTAL LIABILITIES	\$ 79,789	\$	540	\$	1,293	\$	21,758	\$	360,488	\$ 463,868

CITY OF SWARTZ CREEK DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT STATEMENT OF NET ASSETS AND BALANCE SHEET - GOVERNMENTAL FUND JUNE 30, 2006

	Downtown Development Authority Adjustment				tatement of et Assets
ASSETS		-			
Cash and cash equivalents	\$	41,069	\$	-	\$ 41,069
Accounts receivable		161		-	161
TOTAL ASSETS	\$	41,230		_	41,230
LIABILITIES Accounts payable Due to other governments	\$	1,767 55,310	\$	- -	\$ 1,767 55,310
TOTAL LIABILITIES		57,077		-	57,077
FUND BALANCES Reserved for debt service		(15,847)		15,847	
TOTAL LIABILITIES AND FUND BALANCES	\$	41,230			
NET ASSETS					
Unrestricted (deficit)			\$	(15,847)	\$ (15,847)

DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND FOR THE YEAR ENDED JUNE 30, 2006

		wntown elopment	S	Statement of		
		uthority	Adjustments	A	ctivities	
REVENUES Interest		1,230	\$ -	\$	1,230	
EXPENDITURES/EXPENSES Public works		17,077			17,077	
NET CHANGE IN FUND BALANCE / NET ASSETS		(15,847)	-		(15,847)	
FUND BALANCE / NET ASSETS (DEFICIT), BEGINNING OF YEAR			-			
FUND BALANCE / NET ASSETS (DEFICIT), END OF YEAR	\$	(15,847)	\$ -	\$	(15,847)	

August 21, 2006

To the Honorable Mayor and Members of the City Council City of Swartz Creek Swartz Creek, Michigan

In planning and performing our audit of the financial statements of the City of Swartz Creek, Michigan for the year ended June 30, 2006, we considered the City's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. (A separate report dated August 21, 2006, contains our report on the City's compliance and internal controls). This letter does not affect our report dated August 21, 2006, on the financial statements of the City of Swartz Creek, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, or perform any additional studies of these matters, or to assist you in implementing the recommendations.

Rehmann Loham

CITY OF SWARTZ CREEK, MICHIGAN

COMMENTS AND RECOMMENDATIONS

1) Escheat "Old" Outstanding Checks to the State

The City's bank reconciliation for June 30, 2006 includes reconciling items for outstanding checks dating back to 1997. The State has a process to escheat those "old" outstanding checks to the State and remove the outstanding checks as a reconciling item on the City's books.

Recommendation:

The City should consider escheating the outstanding checks to the State in accordance with provisions of the State's escheat program.

2) Reconciling Account Balances in Agency Funds to Supportive Documentation

A strong system of internal control dictates that all general ledger account balances are properly reconciled to and supported with a subsidiary ledger or other adequate supportive documentation. At June 30, 2006, several general ledger account balances in the City's Agency Funds were not reconciled to subsidiary ledgers or other adequate supportive documentation.

Recommendation:

We recommend that the City implement whatever procedures are necessary to ensure that all general ledger account balances are properly reconciled to their respective subsidiary ledger or other adequate supportive documentation in a timely manner.

3) Asset Capitalization Threshold

The City currently defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Many entities similar in size to the City have adopted capitalization policies with individual capitalization thresholds of up to \$5,000.

Recommendation:

The City may wish to consider increasing its fixed asset capitalization threshold to avoid having to account for "immaterial" capital assets on an annual basis. The amount of the City's capital asset threshold should be determined based on overall materiality levels of each opinion unit reported in the City's basic financial statements.

CITY OF SWARTZ CREEK, MICHIGAN

COMMENTS AND RECOMMENDATIONS

4) GASB Statement Number 45, <u>Accounting and Financial Reporting by Employers for</u> Post-Employment Benefits Other than Pensions

GASB Statement Number 45 will first be effective for the City's fiscal year ended June 30, 2008. Generally, the provisions of this statement will require the City to have an actuarial valuation performed of its post-employment benefits (other than pensions) and will strongly recommend that the City make actuarially determined contributions to an account to pay for those benefits.

Recommendation:

The City should implement a plan that will ensure compliance with this statement, including having an updated valuation of its liability for post-employment benefits and addressing contributions in future budgets.